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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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LANDER COLLEGE

AGENCY

NOVEMBER 22, 1982

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES

800 DUTCH SQUARE BLVD., SUITE 150
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MATERIALS MANAGEMENT OFFICER

November 22, 1982

Mr. T. Michael Copeland
Acting Deputy Executive Director
Budget and Control Board
Columbia Building, 9th Floor
Number One Main Street
Columbia, South Carolina 29201

Dear Mike:

Attached is the final Lander College audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant Lander College two years certification as outlined in the audit report.

Sincerely,

Tony R. Ellis
Acting Deputy Director

TRE:rms

Attachment

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LANDER COLLEGE

AUDIT REPORT

November 22, 1982

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INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of Lander College.

Our on-site review was conducted April 16, 1982 through May 13, 1982.

Our examination was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2000.

PURPOSE

Our examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the institution in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

Additionally, Section 11-35-1230 of the Code states, in part:

In procurement audits of governmental bodies..., the auditors from the materials management office shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations.

On January 20, 1982, Lander College submitted to the Materials Management Office a request for certification to handle their own procurements above \$2,500.00 as follows:

<u>CATEGORY</u>	<u>REQUESTED LIMIT</u>
1. Goods and Services	\$30,000
2. Consulting Services	\$30,000
3. Construction	\$5,000,000
4. Information Technology	No Certification Requested above \$2,500

As a result of this request, we began an audit of the procurement system on April 16, 1982.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Lander College and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period August 1, 1981 - March 31, 1982, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;

(10) warehousing, inventory and disposition of surplus property; and

(11) economy and efficiency of the procurement process.

SUMMARY OF AUDIT FINDINGS

Our examination of the procurement system of Lander College produced findings and recommendations in the following areas:

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I. CODE COMPLIANCE - GENERAL	10
The Purchasing Department is not indicating on purchase requisitions for less than \$500 that the price is fair and reasonable as required by Regulation 19-445.2100 of the Consolidated Procurement Code.	
II. COMPLIANCE - CONSTRUCTION	11
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We noted a procurement of landscaping services for \$600 which was handled without competition.	
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RESULTS OF EXAMINATION

I. CODE COMPLIANCE - GENERAL

The Purchasing Department is not indicating on purchase requisitions for less than \$500.00 that the price is fair and reasonable.

Regulation 19-445.2100 of the Consolidated Procurement Code Regulations states in part:

Small purchases not exceeding \$500.00 may be accomplished without securing competitive quotations if the prices are considered to be reasonable. The purchasing officer shall annotate the purchase requisition: 'Price is fair and reasonable' and sign.

The Purchasing Department considers it self-evident that, when the purchasing officer signs a requisition for a procurement of less than \$500.00, she considers the price fair and reasonable.

This results in the institution being out of compliance with the Procurement Code.

This was discussed with the Purchasing Agent and we understand that a rubber stamp has been ordered that will show the appropriate wording and the Purchasing Agent's signature. We recommend that this procedure be used on all requisitions not exceeding \$500.00.

LANDER COLLEGE RESPONSE

A rubber stamp has been obtained and the audit recommendation has been implemented.

II. COMPLIANCE - CONSTRUCTION

A. Procurement of Landscaping Services

During our examination of disbursements greater than \$500.00 in this procurement area, we noted a purchase of landscaping services for \$600.00 which was handled without competition.

Regulation 19-445.2100 of the regulations indicates that solicitations of verbal or written quotes from a minimum of two qualified sources of supply is required on procurements from \$500.01 to \$1,499.99.

We recommend that all procurements be handled in strict compliance with the Consolidated Procurement Code and the ensuing regulations, particularly the sections dealing with competition.

LANDER COLLEGE RESPONSE

Procurements will be handled in strict compliance with the Consolidated Procurement Code.

B. Code Compliance for Future Procurements of Construction and Related Professional Services

Our examination of the construction project files established that there has been only one contract executed with a construction firm, which was a part of a previously approved project, and none with

related construction professionals subsequent to the passage of the Consolidated Procurement Code.

We found no exceptions in the procurement of the construction services procured after the enactment of the Code, but did note the following procedures that, if continued, would place Lander College out of compliance with the Code in regard to the procurement of construction and related services:

- (1) Lander has held a 10% retainage on construction. Per Code Section 11-35-3030(4), the maximum retention is 5%.
- (2) Written notification was sent to Architects-Engineers indicating whether they had been selected for interview by the Agency Selection Committee, but Lander did not notify them of the final order of preference. Section 11-35-3220(6) of the Code specifically requires this be done.
- (3) In one prior instance, four architectural firms were solicited for interviews by the Agency Selection Committee following their response to an invitation to firms for submission of information. Section 11-35-3220(4) of the Code requires that at least five persons or firms be interviewed by the Agency Selection Committee. Of course, if less than five respond, interviews should be held with those that did respond; but in this case more than four had responded.

Without any disparagement of Lander College's past construction procurement procedures, we recommend that appropriate adjustments be

made to ensure that future procurements of construction and related services are in compliance with the Consolidated Procurement Code.

LANDER COLLEGE RESPONSE

Future procurements of construction and related services will be made in compliance with the Consolidated Procurement Code.

III. GENERAL TRANSACTION CONTROL

A. Purchase Order Price Changes Are Not Adequately Documented

Purchase orders are being increased and decreased in price without using "change orders". Usually the documentation is a request by a department which the buyer approves by annotating the purchase order.

Good internal control over the procurement function dictates that price changes to purchase orders be properly approved and documented. This accomplishes the following:

- (1) Control of all price deviations by the Purchasing Agent, thereby effecting total centralized control of the procurement function.
- (2) Monitoring of user department requests to authorize quantity changes to vendors.
- (3) Preventing vendors from making unauthorized price changes on purchase orders which are issued and approved at a specific price.

A strength of internal control in the procurement process lies in the routing of all documents to a central location and the delegation of the approval authority to one individual, in this case the Purchasing Agent. A dilution of this internal control occurs when changes can be made to purchase orders without the proper documentation.

We understand that the Purchasing Department has taken steps to develop a change order form and we recommend that its use be mandated in the Procurement Operating Procedures Manual. We emphasize the importance of the final approval authority remaining with the Purchasing Agent thus maintaining control over all purchase order changes. Change orders should be processed and approved before the merchandise or services are received by departments wherever possible.

LANDER COLLEGE RESPONSE

An amendment form has now been developed that is prepared by the Purchasing Office with copies to the vendor and the department initiating the order. The department must initial this form and return it to the Purchasing Office. This form is used on all changes exceeding \$10.00.

B. Physical Plant Processing Procurements for Supplies

The Physical Plant is authorized to handle the procurement of construction and related professional services under the supervision of

the Vice President of Business and Administration and with the approval of the State Engineer. We found, however, that on occasions the Physical Plant procures small supplies for construction or contacts vendors and obtains prices on these. In the case of the procurements being made directly, there is no requisition nor purchase order prepared. On the others, Purchasing processes a purchase order based on the information supplied by the Physical Plant. It appears that the Physical Plant has interpreted their authority at the College and the Budget and Control Board approval of the projects in question to mean they can process procurements for supplies and other small items.

Although no Code compliance exceptions were noted on the procurements processed by the Physical Plant in our sample, we feel that problems and inefficiencies could result. We believe that procurement of common equipment and supply items which may also be acquired in the normal course of college operation can best be consolidated and controlled by the Purchasing Department.

Based on clarifications recently provided by the Director of the Division of General Services, we recommend that the following changes be made at the College:

- (1) Physical Plant's authority to process procurements of construction and related services should be addressed in the Lander College Policies and Procedures Manual, specifying the extent of their authority and limiting it to the procurement of construction, related services and fixed equipment with the proper approvals.

- (2) All procurements of basic fixed equipment, not made by the general contractor, for construction projects should be processed by the Physical Plant and awarded by the agency per Section 11-35-3020(2) of the Consolidated Procurement Code. Except, basic equipment (fixed) that is specifically identified as information technology procurements, then the Information Technology Management Officer must make the procurements per Section 11-35-1580 of the Code if over \$2,500.00 or the certification limit assigned.
- (3) All procurements of basic moveable equipment and supplies for construction projects should be processed by the Purchasing Department. If the estimated cost of the bid package is more than the amount of certification limits assigned the agency for goods and services, then bids will be required by State Procurements. The College may review all bids and make recommendations of award. State Procurements will make the award. Except, basic equipment (moveable) that is specifically identified as information technology procurements, then the Information Technology Management Officer must make the procurement per Section 11-35-1580 of the Code if over \$2,500.00 or the certification limit assigned.
- (4) All procurements of construction materials for in-house construction should be processed by the Purchasing Department, following project approval by the State

Engineer, and awarded by the College per Section 11-35-3020(2) of the Code.

LANDER COLLEGE RESPONSE

College purchasing policy for some time has been that procurements for supplies and other small items for all departments (including Physical Plant) be made through the Purchasing Office. Exceptions to this policy found in this audit will be addressed by closer monitoring of the system. Recommendations 1-4 will be implemented immediately.

C. Departments Submitting Requisitions for Services to Purchasing After the Fact

During our examination, we found two examples of services that were obtained directly by departments who submitted requisitions to the Purchasing Department after the fact for payment to be processed. In both cases the requisitions were prepared after the services were rendered and the invoices received.

One purchase order was for eight different chartered bus service trips for the men's basketball team totaling \$1,141.80.

The other procurement was for a consultant service totaling \$7,000.00.

Lander's Policies and Procedures Manual, under procurement authority, states in part:

Lander College Purchasing Department is authorized in accordance with the South Carolina Procurement

Code, Section 11-35-1030, to make commitments against College accounts for the procurement of supplies, equipment and services necessary for the operation of the College.

Further, the manual states that the requisition is the official College document which is used to initiate a purchase transaction.

In these cases, the above sections of the Policies and Procedures Manual were not complied with.

We feel that the second instance is partially due to the payment being classified as an honorarium by the College. Consequently, the procurement was handled under the following section of the Policies and Procedures Manual:

Compensation and Honorariums

It is College practice to compensate for occasional special services such as honorariums and the like, by issuance of checks by the Accounting Department. Forms for payment are initiated by submitting a requisition.

Purchase orders may be issued only to compensate bona fide private contractors for service.

Honorariums are defined as payments usually for services on which custom or propriety forbids a price to be set.

In our opinion, the service provided in this case cannot meet this definition because the speaker is a nationally known celebrity who does establish a fee for his services which, as indicated above, is substantial.

We recommend that all departments be informed that they are to follow the requisition process as outlined in the Lander College Procurement Operating Procedures Manual. If proper procurement channels

are followed, there will be little chance of an unauthorized procurement being made.

Additionally, to avoid confusion, we recommend that honorariums be defined in the Procurement Operating Procedures Manual and that this definition be strictly applied. Services not meeting this definition should be considered consultant services and procured accordingly.

Finally, we recommend that the College add a section to the Procurement Operating Procedures Manual to cover "unauthorized procurements". This should refer to Consolidated Procurement Code Regulation 19-445.2015 which defines unauthorized procurements and outlines how they are to be handled.

LANDER COLLEGE RESPONSE

This recommendation will be implemented with the update of the Procurement Operating Procedures Manual.

D. Voucher Review

The Purchasing Department is performing much of the work normally handled by the Accounts Payable Section of the Accounting Department in other agencies. Vendor invoices are forwarded to the Purchasing Department where they are matched with the appropriate purchase orders and receiving reports. These documents are then forwarded to the Finance Office for payment processing.

Each invoice is stamped with the following steps to be completed in the voucher review process:

- (1) Evidence of Receipt
- (2) Prices Verified
- (3) Extensions and Additions Verified
- (4) Checked for Discount
- (5) Disbursement Authorized

The Purchasing Section groups all supporting documents and performs the first two steps above. The documents are then forwarded to the Accounts Payable Section for voucher preparation and performance of the last three steps.

We found that in the majority of the cases tested the review by Accounts Payable was not noted in the appropriate boxes or there was no evidence indicating who had performed the review.

Good internal control requires all supporting documents be accumulated and verified prior to payment being authorized to ensure that procurements are properly authorized and payments are made correctly. In order to ensure that this is done and to identify responsibility for the performance of this function, each review point needs to be documented as it is completed by the individual(s) responsible. This should clearly indicate who performed the steps.

Additionally, internal control principles require that the ordering or purchasing function normally be handled independently from the payment and accounting functions. Per Generally Accepted Accounting Principles, the procurement function ends with the placing

of the order and the creation of the liability. The disbursement function takes over at this point.

As we understand it, Lander had problems with the performance of the voucher package review by the Accounts Payable Section years ago so part of this process was turned over to Purchasing. The Lander College Procurement Operating Procedures Manual specifies that the Purchasing Department will perform this function.

By not documenting the voucher package review, the College is not assured that the function was performed nor can responsibility be established for it. This could result in unauthorized or otherwise improper payments being made. This function being split between two departments makes it even more difficult to establish responsibility for it.

In order to assure a separation of the purchasing function from the disbursement function, we recommend that the Accounts Payable Section perform the voucher package review from the point of matching invoices, requisitions, purchase orders and receiving reports to authorizing payments.

The voucher package review should be clearly documented to show performance and identify responsibility.

Further, we recommend that the "voucher package audit" section on the face of the voucher be used for this function rather than the current stamp because it is more complete.

LANDER COLLEGE RESPONSE

The College prefers that steps 1 and 2 in the voucher review process be left in the Purchasing Office. The fact that Purchasing gathers the evidence of the receipt does not present a problem with internal control since they do not control that document. The receiving report is the evidence of receipt and it is held in the department making the purchase and its signed return to Purchasing indicates receipt of the goods.

More care will be taken in the voucher review process to see that the check off list is completed and initialed.

E. Cancellation of Supporting Documents in Accounts Payable

Lander College's method of cancelling supporting procurement documents upon payment of vouchers is not very effective. The present procedure is for the accounts payable clerk who has processed the voucher to stamp the voucher date on the voucher. This stamp is not used on all supporting documents and is rather small and can be missed without close scrutiny of the documents.

Good internal control procedures dictate effective cancellation of supporting documents to prevent duplicate or improper payments.

Lander College feels that their cancellation procedure is adequate.

The possibility exists that an invoice may be paid twice if prior payment is not readily apparent.

Lander College should use a much larger stamp to indicate that payment has been made on these documents and to effectively cancel them. Another alternative would be to investigate the feasibility of purchasing a machine that would perforate the voucher number into all supporting documents.

LANDER COLLEGE RESPONSE

A larger stamp is now being used.

F. Return of Vendor Checks to Departments

The Lander College requisition form has a section that shows the following:

Check one: Return to Dept. for Mailing _____

Mail Directly to Supplier _____

We found that at times vendor checks are returned to the requesting department rather than being mailed directly to the vendor from the Business Office.

Sound internal accounting control procedures dictate that checks should be sent directly to payees. This would assist in preventing improper diversion of a check or the submission of a purchase requisition by an employee for a fictitious vendor.

Many times this situation occurs in the payment of an honorarium or some type of services when an employee wants to send a "thank you" note to the payee along with the payment.

This also is requested frequently by the Physical Plant to pay contractor's progress payments for on-going projects where the contractor is on campus. These payments may be hand delivered to the contractor.

Although we have no reason to believe that any improper actions have occurred, we recommend that, as a matter of policy, all checks be mailed directly to the payee. "Thank you" notes could be mailed separately to the guest either before or after the payment has been made.

In cases of payments to contractors who are on-site at the College, the checks could be picked up from the Business Office by the contractor.

Additionally, we recommend that the affected section of the requisition be removed on the next order of the forms.

LANDER COLLEGE RESPONSE

The option to return checks to the department for mailing is being deleted from the purchase requisition form.

G. Control Over Equipment Maintenance Payments

Our selection of all disbursements greater than \$500.00 in the area of Information Technology produced only six purchase orders to be tested in this procurement area. We did not note a Code compliance deviation in this area; however, we did note that two of the four

purchase orders for equipment maintenance which we reviewed did not indicate the serial numbers of the equipment items covered by the agreement.

In order to properly control payments against maintenance contracts, the purchase order needs to show the serial number of each item covered by the contract. This ensures that vendor invoices can be matched with the appropriate purchase order so that it can be verified that the invoice is proper and payment is verified.

We recommend that purchase orders for maintenance agreements clearly show the serial numbers and other pertinent identification information on each equipment item covered by the contract. Payments against maintenance contracts should not be made unless serial numbers per the vendor invoices can be matched with serial numbers per the purchase orders. These equipment numbers should additionally be checked against property inventory records periodically.

LANDER COLLEGE RESPONSE

This recommendation has been implemented.

IV. FISCAL ACCOUNTABILITY ACT REPORTING

Partially, as a result of lack of clarification as to report procedures statewide, Lander has failed to comply with the requirements of the Fiscal Accountability Act in the following areas:

- (1) Failed to report to the Comptroller General a statement of all existing contracts for permanent and capital improvements and the status of work pursuant to such contracts.
- (2) Neglected to report to the Division of General Services commitments for construction and related services which are procured by the Physical Plant.
- (3) Neglected to reconcile the data collected for Fiscal Accountability Act reporting to the Comptroller General with the expenditure records per the general accounting records.

Act 561 of 1976, Section 4 states in part:

The quarterly reports required by this act shall include the following information current to the end of the last preceding quarter:

- (2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

Further, 561 as amended May 30, 1977, states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....

The College implemented a new accounting system obtained from the University of South Carolina (including a new system for capturing data for Fiscal Accountability Act reporting to the Comptroller General) at the beginning of this fiscal year. Lack of understanding of this new accounting system and uncertainty about the workings and requirements of the Fiscal Accountability Act reporting system on the state level appear to have caused this situation.

In our efforts to reconcile the Fiscal Accountability Act report to the disbursement file, we discovered that all disbursements have not been reported. The General Assembly, without a major audit effort, cannot readily know the procurement activity of Lander in the areas of:

- (1) Permanent and capital improvements;
- (2) Total commodities purchased.

Until such time as updated statewide guidelines are finalized, we recommend Lander take prompt action to establish and implement the necessary controls to ensure the following:

- (1) The Comptroller General receives a quarterly report of all disbursements of the College. An understanding of the system brought over from the University of South Carolina is needed before any corrective action can be taken. Since this system was obtained from the University, they should be contacted and requested to help in

this endeavor. Once the system is understood and appropriate adjustments are made, efforts should be made by the Accounting Department to reconcile the reports to the Comptroller General to the general accounting records.

- (2) The Comptroller General receives a quarterly report on all existing contracts and status of work done on capital and permanent improvements.
- (3) Commitments for construction and related services are reported to the Division of General Services. The Purchasing Department is responsible for preparing this report; therefore, the Physical Plant should forward a copy of each contract for construction and related services, as they are consummated, to Purchasing so that these commitments are captured and reported properly.

LANDER COLLEGE RESPONSE

The College will begin to take steps to implement recommendations 1-3 including discussion with the USC accounting and computer services personnel for assistance.

V. INABILITY TO DISTINGUISH BETWEEN SURPLUS PROPERTY AND ITEMS BEING HELD FOR FUTURE USE

Presently the Property Management Section is unable to distinguish between the items stored in their warehouse as surplus items that should be sold and items held for future use. Surplus Property has been accumulating over the past several years with no dispositions. It is difficult to determine the following:

- (1) What is surplus property that should be disposed of accordingly;
- (2) What should be classified as junk and sold;
- (3) What is being held for review and future use by the College; or
- (4) What is being held for spare parts.

A complete inventory of surplus items in the warehouse has never been taken so it is unclear how these should be classified.

Furthermore, some items being stored there for future use by the Physical Plant have never been recorded on the College equipment inventory.

To complicate matters, the Custodial Section of the Physical Plant stores their supplies in the same location. Surplus items, items for future use and custodial supplies are stored throughout the building in no accountable fashion.

Section 11-35-3820 of the Procurement Code states in part:

Each governmental body shall inventory and report to the Division (of General Services) all surplus personal property not in actual public use held by the agency for sale.

Since the Property Control Section does not distinguish between items being held for future use and items that can be disposed of, none of them have been accounted for. This results in the following:

- (1) Funds being tied up in old unusable property when proceeds from its sale could be returned to Lander and/or the General Fund of the State.
- (2) Increased administrative costs for the storage and control of these items.
- (3) College departments being unaware of unused property available to them.

We recommend that an inventory be taken of all surplus property held by the College. Each item should be classified as surplus for sale, junk for sale or surplus for future use.

Items for future use should be tagged and added to the equipment inventory, if not reflected there now. A list of these items should be prepared and disseminated throughout the College to make everyone aware of what is available.

Surplus for sale and junk should be reported to the Division of General Services' Central State Warehousing and Disposal Section so that it can be disposed of.

A simple system should be established for the control of this property by the Property Control Section. It should provide for a method of transferring authority and responsibility for items such as these to Property Control, the length of time that items will be held for possible future use and the process of requisitioning items from

the warehouse by departments. These procedures should be documented in the Procurement Operating Procedures Manual.

LANDER COLLEGE RESPONSE

Much of the College's problem in this area has been the lack of storage space to allow for the establishment of an orderly system of control of surplus property, items being held for future use, and junk. The College is currently finalizing a lease of an old elementary school adjacent to the campus which will be used as warehouse space. This will enable us to proceed with implementation of the recommendations within the next few months.

VI. ADDITIONAL POLICIES AND PROCEDURES NECESSARY FOR CERTIFICATION

We recommend that the following areas be added and/or expanded in the current Internal Procurement Operating Procedures Manual:

- (1) A procurement policies statement listing the general policies to be adhered to in the procurement of construction and related professional services.
- (2) A procedures flow chart showing the document processing flow for construction and related professional services.
- (3) The specific procedures to be followed by the governmental body for procurements of construction and related services.

- (4) Determination reports as listed in Sections 11-35-2410, 2420, 2440, 3820, 3830 and 5260 of the Consolidated Procurement Code should be addressed outlining their use.
- (5) Bid Security and Bid Opening Procedures.
- (6) Change Order or Amendment to Purchase Order Procedures.
- (7) Authorized signature approval forms for department heads and appropriate area vice presidents and location where kept.
- (8) Use of Blanket Purchase Order Logs.
- (9) Procedures for resolving bid protests and grievance procedures.
- (10) Vendor Complaint Procedures.
- (11) In-State Bidder's Preference and Tie Bid Procedures.
- (12) Professional Development.
- (13) Unauthorized Procurement Procedures.
- (14) Reference to Legal and Auditing Procurement Procedures of the Code.
- (15) Record Retention Plan.
- (16) Description of Files for Quarterly Reporting of Sole Sources, Emergency Purchases and Trade-Ins of Like Items.
- (17) Reference to the Information Technology Master Plan.
- (18) Procedures for Information Technology procurements outlining procedures for items less than \$2,500.00 and more than \$2,500.00.

LANDER COLLEGE RESPONSE

The College's Internal Procurement Operations Procedures Manual is being updated to address items 1-18. This should be completed no later than late October.

SUMMARY OF AUDIT CONCLUSIONS

We have examined the procurement policies and procedures of Lander College for the period August 1, 1981 - March 31, 1982. As a part of our examination, we reviewed and tested the College's system of internal control over procurement transactions to the extent we considered necessary to evaluate the procurement system. The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and College procurement policy. Additionally, the evaluation was used in determining the nature, timing, and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The objective of internal control is to provide reasonable but not absolute, assurance of the safeguarding of the procurement process, and of the reliability of the purchasing records. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion.

Similarly, control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions. Further, projection of any evaluation of internal control to future periods is subject to the risks that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

It should be understood that our study and evaluation of the College's system of internal control over procurement operations for the period August 1, 1981 - March 31, 1982, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system.

Our review of the system of internal procurement control did, however, disclose the aforementioned conditions which we believe to be subject to improvement.

Corrective action based on the recommendations described in these findings will in all material respects place Lander College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, we recommend subject to the above corrective action that Lander College be certified to make direct agency procurements as follows:


RECOMMENDED CERTIFICATION LIMITS

- | | |
|--|-------------------------------------|
| I. Goods and Services exclusive of
printing equipment which must be
approved by the Materials Manage-
ment Officer. | \$5,000, per purchase
commitment |
| II. Consulting Services | \$5,000, per purchase
commitment |

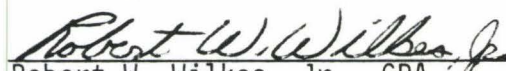
This would result in Lander College handling 99% of purchase orders issued.

We are unable to recommend certification in the areas of Information Technology and Construction. Neither the State Plan nor the College's Plan for the management and use of information technology have been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.



R. Voight Shealy
In Charge Auditor



Robert W. Wilkes, Jr., CPA
Director, Audit and Certification



STATE OF SOUTH CAROLINA

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November 22, 1982

BARBARA A. McMILLAN
DIRECTOR, CONTRACTS AND
AUDIT MANAGEMENT
(803) 758-6060

Mr. Tony R. Ellis
Acting Deputy Director
Division of General Services
800 Dutch Square Boulevard, Suite 150
Columbia, South Carolina 29210

Dear Tony:

We have reviewed the progress of Lander College toward implementing the recommendations in our audit report covering the period of August 1, 1981 - March 31, 1982. During our review, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that Lander College has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, with the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits for Lander College, as outlined in the audit report, be granted for a period of two (2) years, or until the Materials Management Office Audit and Certification Section returns to the institution.

Sincerely,

A handwritten signature in cursive script that reads "Barbara A. McMillan".

Barbara A. McMillan, Director
Contracts and Audit Management

BAM:rms

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